

Budget Reversal To Yield Deficit

Administration's Estimate for '02 Is \$106 Billion

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The federal government is projected to run a \$106 billion deficit this year, the White House said yesterday, confirming the sharpest turnabout in the nation's fiscal health in half a century.

White House budget director Mitchell E. Daniels Jr., briefing reporters as congressional budget analysts delivered equally gloomy news on Capitol Hill, said the budget would be in deficit for the rest of President Bush's term and then would emerge back into surplus the rest of the decade.

The White House ordinarily would not disclose such estimates until the budget is formally released in early February. But officials were eager to get the bad news out on the same day that the Congressional Budget Office was to release its budget forecast, reflecting the high stakes in a year that appears to promise difficult and protracted budget negotiations.

The surplus in the near-term has evaporated largely because the recession has lowered tax revenue and led to increased social services spending. The war on terrorism, meanwhile, has added billions of dollars to the military and homeland defense budgets.

But the CBO forecast suggested that the government would have eked out a small surplus this year absent the president's tax cut. Democrats charged yesterday that Bush's tax cut is largely responsible for the startling long-run decline in what, only a year ago, appeared to be more than \$5 trillion in surpluses.

The White House last year had said that its budget would not touch Social Security payroll taxes to fund other parts of the government and was designed to pay down \$2 trillion of federal debt by 2010. But the new projections suggest that Social Security funds will be tapped for other programs through the rest of the decade, with little prospect for significant debt reduction.

At a Senate Budget Committee hearing, several Democrats couldn't resist comparisons with the scandal involving Enron Corp., in which senior executives sold their stock before a financial collapse ravaged the retirement funds of ordinary workers.

"This is a lot like Enron," said Sen. Deborah Ann Stabenow (D-Mich.). "The top 1 or 2 percent of the public will get major tax cuts paid for by the retirement earnings of Social Security and Medicare by the majority of Americans."

Daniels countered that the "tax cut was very wise public policy." He said it was designed to phase in slowly over the next decade, giving Congress "many opportunities to see if these surpluses arrive."

Only a year ago, the White House projected that the federal budget would have a \$231 billion surplus this year instead of a deficit. The shift from a \$127 billion surplus in 2001 to a \$106 billion deficit represents 2.3 percent of the nation's overall economic output. That's the biggest decline from a surplus since 1952, when the United States was at war in Korea. (In the 1974-75 recession, the deficit grew by 3 percent of the economy in one year.)

Daniels said yesterday that official Washington spends too much time obsessing over budget estimates that are frequently wrong. "These numbers oscillate wildly and are of very, very little use," he said, describing the administration's forecast as "this year's wild guess."

During last year's budget debate, when the White House was pushing the tax plan, the Office of Management and Budget took a different stance, frequently suggesting that the projections were likely to be too conservative. "There are convincing reasons to assume that higher revenues are more likely than lower revenues and a larger, not smaller, surplus lies ahead," the president's first budget said.

The CBO's forecast assumes no changes in policy, with spending growing at the rate of inflation, giving lawmakers "a baseline" with which to compare the budgetary impact of various proposals. Under this standard, the CBO yesterday estimated that the budget would have a \$21 billion deficit in 2002 and a \$14 billion deficit in 2003.

But Congress and the administration have already promised to add billions to aid farmers, bolster homeland security and fight the war on terrorism. Such spending is not reflected in the CBO forecast.

The new White House projections include those policy initiatives, which is why the White House deficit figures are much higher. The \$106 billion deficit projected for 2002 assumes the passage of an economic stimulus plan this year. The administration projects an \$80 billion deficit in 2003, reflecting Bush's plans to boost military spending by 14 percent and nearly double homeland security expenditures.

Daniels said that much of the rest of the federal government would be placed on an austere budget, and that the president's pledge to rapidly pay down the nation's debt has been deferred.

The two forecasts differed slightly on the prospects for economic growth in the coming year. The CBO estimated slightly higher growth -- 0.8 percent in 2002 and 4.1 percent in 2003 -- compared with the administration's estimates of 0.7 percent and 3.8 percent, respectively.

From 2002 through 2011, the CBO projected that the surplus would be \$1.6 trillion, assuming the president's tax cut is extended beyond 2010, when it is currently set to expire. But 75 percent of the projected surplus would not appear until the second half of that 10-year period.

The administration, taking into account policy proposals such as a \$190 billion Medicare prescription drug benefit, estimates that the 2002-2011 surplus would be \$1 trillion. But that does not account for the administration's plan to create personal Social Security accounts, which by some estimates would cost \$1 trillion over a decade.

In the next 10 years, the CBO projects that the government will take in less revenue than the White House believes, Daniels said. CBO Director Dan L. Crippen told Congress yesterday that the agency has sliced nearly \$700 billion off its 10-year surplus forecast in part because it had overestimated how much revenue would be generated by capital gains taxes. Capital gain revenue -- generated by the sales of stock -- had soared during the booming stock market, but some analysts had faulted the CBO for being too optimistic.

In another Enron reference yesterday, Sen. Ernest F. Hollings (D-S.C.) chided Crippen. "I don't see too much difference between this kind of presentation and consideration of budget responsibilities and Arthur D. Andersen," Enron's accountant, Hollings said.

"We didn't shred any documents," Crippen responded.

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